1947

Annual Report

ISCO

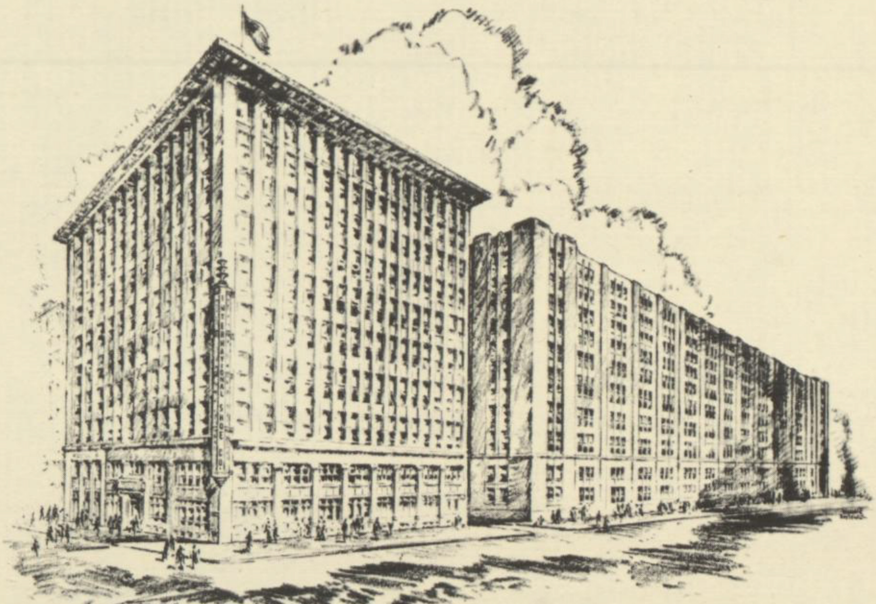
INTERNATIONAL
SHOE COMPANY

1947 Annual Report of

INTERNATIONAL SHOE COMPANY

1509 WASHINGTON AVENUE • ST. LOUIS 3, MO.

and financial statements for the year ended November 30, 1947



OFFICERS

Frank C. Rand	*Chairman of the Board*
Byron A. Gray	*President*
Andrew W. Johnson	*Vice-President and Treasurer*
Paul B. Jamison	*Vice-President*
Oliver F. Peters	*Vice-President*
Arthur B. Fletcher	*Vice-President*
Dickson S. Stauffer	*Vice-President*
Edgar E. Rand	*Vice-President*
Robert O. Monnig	*Comptroller and Asst. Secy.*
Carl E. Brueckmann	*Secretary*
William N. Sitton	*Assistant Treasurer*

DIRECTORS

Robert E. Blake
Samuel Bown
Carl E. Brueckmann
Clarence H. Fielder
Arthur B. Fletcher
Byron A. Gray
H. Roy Green
Clemence L. Hein
Edward J. Hopkins
Fred Hume
Lewis B. Jackson
Paul B. Jamison
Andrew W. Johnson
J. Lee Johnson
Robert L. Jordan
Robert O. Monnig
William H. Moulton
Oliver F. Peters
James T. Pettus
Edgar E. Rand
Frank C. Rand
Henry H. Rand
William N. Sitton
Dickson S. Stauffer

TRANSFER AGENTS

Manufacturers Trust Company, New York, N. Y.
Mississippi Valley Trust Company, St. Louis, Mo.

REGISTRARS

Guaranty Trust Company, New York, N. Y.
St. Louis Union Trust Company, St. Louis, Mo.

Annual Message

FROM THE CHAIRMAN OF THE BOARD AND THE PRESIDENT

TO OUR STOCKHOLDERS:

Our Company's 1947 fiscal year opened just 31 days after our industry was freed from wartime controls.

Here are some of the results, with comparisons:

	1947	1946	1945
We produced shoes which were sold to others in the amount of	$212,918,192	$135,031,487	$148,783,704
We produced leather and other materials for use by us in the manufacture of shoes	91,439,492	67,427,505	74,305,140
Total value of production	304,357,684	202,458,992	223,088,844
Net Profit (After Adjustments)	14,002,017	5,448,781	5,568,720
% of Sales	6.6%	4.0%	3.7%
% of Total Value of Production	4.6%	2.7%	2.5%
Earnings Per Share	$4.11	$1.62	$1.66
Dividends	2.25	1.80	1.80

1947 was a year of readjustment.

The distortions of price-value relationships and the dislocations of supply-demand relationships with which our industry was left after five years of war-time controls began to right themselves in 1947. Values and prices again had a meaning. Character and integrity resumed their former position in the market place. Opportunists who had thrived under the O. P. A. disappeared almost overnight. Concerns of long-standing—handicapped under unrealistic, sometimes capricious bureaucracy—moved forward.

Our Company sold under "allocation" plan all of the shoes it could produce, while some other shoe factories operated only three or four days a week during parts of the year.

Our Company produced *14% more* shoes than in the previous year, while the industry showed a *decrease of more than 10%* in the same period.

Demand exceeded our ability to supply virtually all types of shoes we make.

This was not a year of easy profits. It was a year in which competitive values largely determined the varying degrees of acceptance accorded the products of the more than 1,000 shoe manufacturers in the field.

NET SALES

The dollar value of the shoes shipped to our customers in 1947 exceeded any past year by a considerable margin.

1947	$212,918,192	
1946	135,031,487	(Previous Year)
1944	156,642,087	(Previous High)
1937	88,278,810	
1927	124,306,333	
1917	45,037,293	
1912	20,990,643	(First Year)

Our Company manufactures all of the shoes it sells. The number produced in 1947 was a new high record for a year in which the 40-hour week was observed most of the time. This volume has been exceeded in three other years, but only in years in which much longer hours were worked. Our shipments were limited not by customers' demand but by our ability to produce.

NET PROFIT

Net profit was approximately 6.6% of net sales and 4.6% of total value of product.

Net profit was affected by the Company's pricing policy which, as discussed elsewhere, was set to resist higher prices and inflationary tendencies.

The shoe industry is probably one of the most competitive of all industries. Little concern need be felt that profits unrelated to efficient production and distribution can long exist on the part of any producer. Industry records confirm this.

DIVIDENDS

Dividend rate was increased on April 1, 1947 from the annual basis of $1.80 per share to an annual basis of $2.40.

On January 1, 1948 the dividend rate was increased to annual basis of $3.00 per share.

The new indicated annual rate of $3.00 is a return to the highest dividend previously paid on the present stock.

This continues our Company's unbroken record of dividend payments on its common stock extending over 35 years.

PRODUCTION

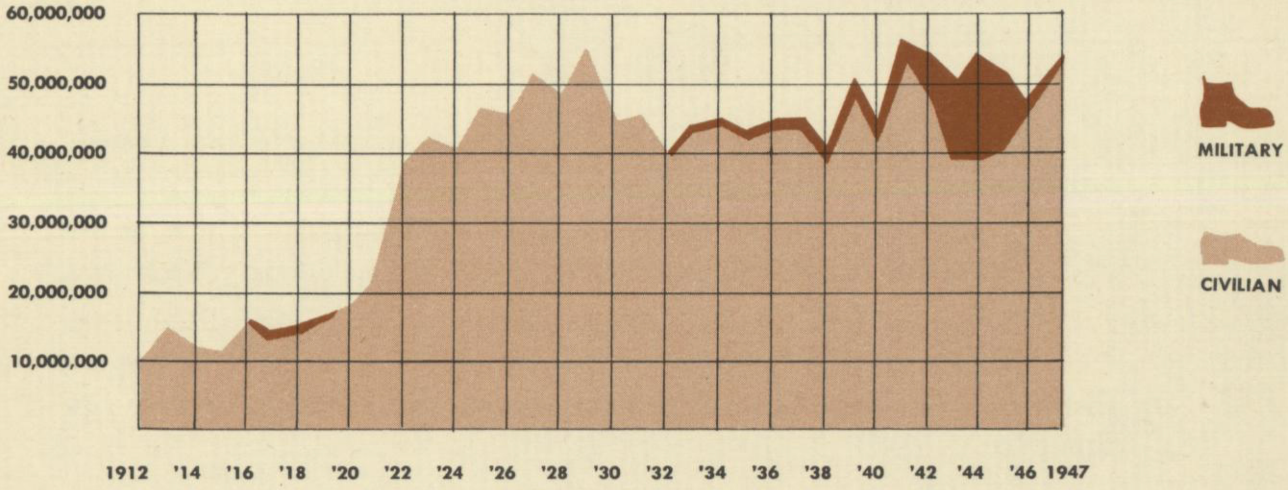
The Company's production in 55 shoe factories of 54,044,233 pairs of shoes represented about 11% of all shoes produced in the United States.

These shoes were the only product manufactured by our Company for sale to others, and the entire amount of $212,918,192 in net sales shown for 1947 was shoes only (except for some inconsequential amounts).

If we had produced *only* these shoes, and had purchased all of the materials and supplies used in their production, our sales to customers would have been the same amount, $212,918,192.

In addition, however, our Company engages in other production on a large scale. For example, the operation of our nine tanneries places the Company among the largest tanners in the United States. This increases substantially the capital invested in plants and inventories in relation to each dollar of sales

PAIRS OF SHOES PRODUCED SINCE 1912



of its end product, shoes. Much less would be risked if operations were devoted solely to production of shoes.

Similarly, our management personnel must include — in addition to the know-how of shoe manufacture and distribution—talents, skills and experience in the technique of tanning and the procurement of raw hides and skins.

The Company's rubber plant which produces rubber soles and heels is an efficient plant, in which a considerable investment has been made. Materials such as crude rubber and carbon black, foreign to shoe manufacture, must be procured and carried in our inventory. Men skilled in rubber must be on our payroll.

A large cotton mill, a welt manufacturing unit, and numerous other supply plants making box toes, boxes, cements, chemicals, and other items add to the extent and magnitude of the production in which the Company engages.

All of such materials and supplies are used in the manufacture of the Company's own shoes, and for this reason the production of them does not have the effect of adding to the amount of the Company's sales to others. Instead, this production goes right back into other production — for example, when leather is produced at one of our tanneries it is transferred to one of our shoe factories, where it is cut into parts of shoes, taking the place of leather which otherwise would have come from some other tanner.

Thus, net sales of shoes does not accurately measure the extent and magnitude of the Company's operations.

Value of production does this better.

As shown before, value of production for 1947 was $304,357,684.

Production Summary

Our Company's principal production is shoes; and shoes are the only thing we produce for sale to others. In 1947 we produced:

Shoes, for Men and Boys	Pairs—18,825,554	*Of this type of production our Company sold $212,918,192*
for Women and Girls	Pairs—17,856,134	
for Children	Pairs—16,406,960	
House Slippers	Pairs— 955,585	
	Total—54,044,233	

However, our Company carries on a vast amount of other production of things used in the manufacture of shoes. Of these we produced:

Materials for Shoe Uppers

Leather for Uppers (including Linings) from Cattle Hides and Lambskins (Calfskins and Goatskins tanned under contract not included)	Feet—64,426,948	*This type of production had an aggregate value of $24,805,765*
Cloth for Linings from Cotton	Yards— 7,176,010	

Materials for Shoe Bottoms

Soles, of Leather (some shoes take several soles)	Pairs—94,066,972	*This type of production had an aggregate value of $57,052,934*
Soles, of Rubber	Pairs—12,011,969	
Counters, of Leather	Pairs—22,307,712	
Heels, of Leather (some shoes take leather and rubber heels)	Pairs—19,584,361	
Heels, of Rubber	Pairs—30,061,248	
Leather, for soles from Cattle Hides	Pounds—29,394,727	
Welting, Leather	Yards—19,305,305	

Other Materials and Supplies used in Shoes and for Fastening, Making and Packaging Shoes

Boxes, Box Toes, Cartons, Cements, Chemicals, Patterns, and others	Not itemized	*This type of production had an aggregate value of $9,580,793*

Total Value of Production—Shoes, Materials and Supplies . . *$304,357,684*

Working Capital

Here are some comparisons:

	November 30 1947	November 30 1946	Increase *(Decrease)*
Current Assets			
Cash and Government Securities	$12,827,488	$12,874,178	$ *(46,690)*
Accounts Receivable	27,105,524	16,890,241	10,215,283
Inventories	43,337,312	42,078,373	1,258,939
Prepaid Expenses	525,594	542,961	*(17,367)*
Refunds of Federal taxes on income due to carry-back of excess profits credit	—	2,211,001	*(2,211,001)*
Total (Assets)	$83,795,918	$74,596,754	$ 9,199,164
Current Liabilities			
Accounts Payable	$ 8,390,996	$ 9,390,754	$ *(999,758)*
Reserve for Federal taxes on Income	8,950,000	1,690,000	7,260,000
Other	2,417,869	2,160,882	256,987
Total (Liabilities)	$19,758,865	$13,241,636	$ 6,517,229
Net Working Capital	$64,037,053	$61,355,118	$ 2,681,935

The increase of $2,681,935 in net working capital came from the re-investment of current earnings of the business.

The increase in accounts receivable reflects the much higher sales in the latter months of 1947 than in the same months in 1946.

Because of evaluation of our principal inventories on the "last-in, first-out" method, changes in market levels of these items are not reflected in inventory values carried on the books, as discussed elsewhere under "Inflation".

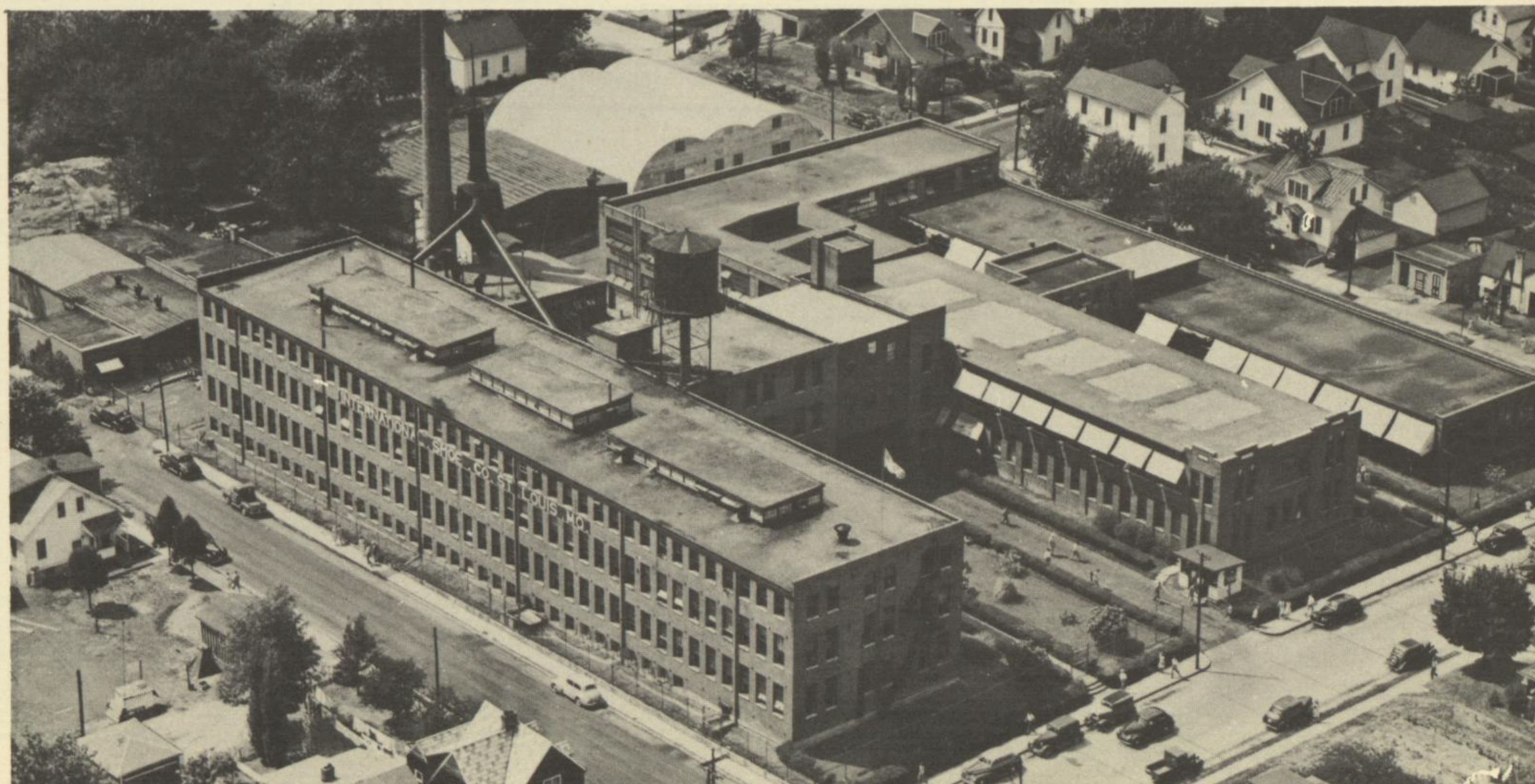
A check was received from the Government to cover refund of Federal taxes on income, due to carry-back of excess profits credit, which appeared on the November 30, 1946 balance sheet.

COSTS—PRICES

Costs and prices in 1947 were dominated by great fluctuating movements in the hide and leather market—the inevitable result of releasing the pent-up economic pressure which had been built up under the controlled prices by the wholly unrealistic, arbitrary, almost capricious manner in which prices were controlled from the end of the war in 1945 up to the day of decontrol.

Our fiscal year 1947 opened just 31 days after decontrol of the prices of hides, leather and shoes by the Government on October 31, 1946. Because of the interrelationship of prices, it was quite apparent during the last year of controlled prices, that the basic raw material of our industry, hides, had gotten far out of line with its normal position in relation to other prices. Cotton, for instance, which sold for 9¢ per pound in 1939 at a time when hides sold for 12¢ per pound, had risen to 21¢ in 1945 and to 36¢ in 1946, while hides had been held at 15½¢ until the time of decontrol. Cotton textile prices had been permitted to rise roughly in line with cotton.

Airview of Washington, Mo., Plant, showing new quonset hut warehouse



The Control Authority, however, refused to permit even modest increases in the prices of hides—increases suggested by the industry to forestall black market activity and to make possible a more workable control during 1946. Informed persons in the hide, leather and shoe industries were apprehensive that this unrealistic attitude of the Control Authority would cause an extremely difficult situation in the period which would follow decontrol.

And so it happened.

Hides doubled in price almost overnight. Representative types rose from 15½¢ to 32¢. Leather prices followed closely.

In the midst of the extreme excitement which prevailed in the markets in November, 1946, our Company priced its shoes on a basis below the prices which would have reflected the level of the raw material market.

These shoe prices were firm prices. No escalator clauses were asked. Retailers knew what prices would be charged when the shoes they ordered were delivered.

The free market had the effect of bringing into sight and making available considerable quantities of hides and leather. At least, it was possible to obtain materials and produce shoes, keep employees busy, factories running. The "stop-and-go" type of operation of 1946 came to an end.

The large supplies which appeared had the effect of gradually bringing the hide market downward, while the unbalance in the supply of heavy and light hides caused an unusual price spread to develop. In late spring, heavy hides sold on the basis of about 20¢; light hides sold on the basis of about 26¢. This spread of 6¢ compares with the normal spread of about 1¢ between various classes of hides.

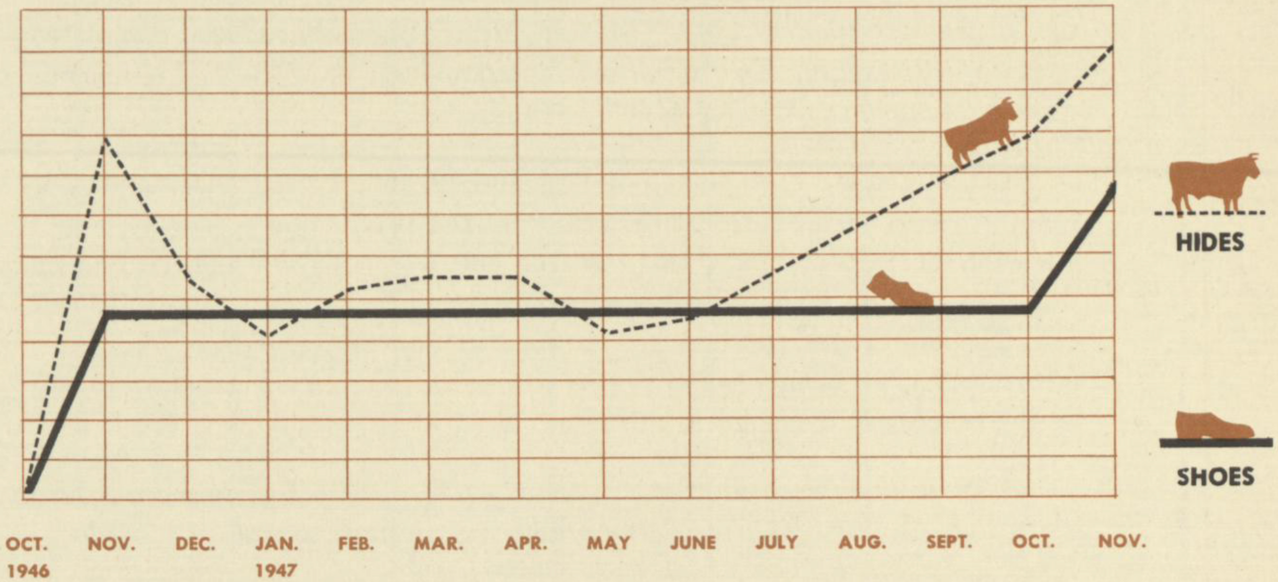
However, when the lower level of business in general, the "recession," which had been predicted so freely early in the year, failed to materialize . . . and when the drop in prices generally which had been promised to the consumer also failed to appear—hide prices, along with others, firmed up, then climbed steadily. In the late fall, they touched the high prices originally established after decontrol and now, at the time of this writing, they have risen to new high levels.

Throughout the entire year, in the face of the wide swings in the raw material markets, our Company held its shoe prices virtually unchanged from those established in November, 1946—except for a decrease in work shoe prices in June, made possible by the temporary disproportionate drop in the price of heavy hides.

Our Company's pricing policy recognizes the fundamental principle that high prices retard consumer purchases of shoes. Throughout the year, all of our operations, from procurement through sales, insofar as they bear on the matter of prices, were directed toward lowering prices or resisting higher prices.

This policy caused our Company to announce early in August that we would sell the production of the last 2½ months of the fiscal year at unchanged prices in the face of raw material markets at that time which called for increased prices.

CHART SHOWING RELATIONSHIP OF OUR SHOE PRICES TO HIDE PRICES
(Average Light and Heavy)



As announced, it was the Company's hope that the raw material markets would again recede in the fall to levels that would permit our continued "holding the line" on shoe prices. We were hopeful that spring 1948 lines would show no increase over fall 1947 prices.

With the continued steady rise in raw material prices, however, we were reluctantly forced to recognize the new level when pricing our spring lines. Shoe prices were advanced from 10% to 12½%. Even these prices are based on raw material prices considerably below the new high level reached at the present time.

Nevertheless, our prices are firm prices. Again the retailer knows what his prices are and is not subject to the uncertainties of the escalator clause.

PLANT FACILITIES

Steady progress was made during the year in the construction of additional plant facilities. The post-war expansion program was extended to include two additional plants, for a total of 19 new plants since the war. These are located in Missouri, Arkansas, Kentucky, Illinois and Tennessee. Fourteen of the new plants are shoe factories, four are sole cutting plants and one is a tannery. Seven of the new shoe factories were completed during the year, making a total of eleven, since the war, now in operation. Construction has started on the remaining three shoe factories, and they should be in operation in the early part of 1948. Two sole cutting plants have been completed and are in operation. Two more will be completed in 1948. The tannery is expected to begin processing hides in January.

The engineering of plant building and layout of each shoe factory is designed to achieve maximum efficiency in the production of one type and grade of shoes. Each one of the new sole cutting plants will concentrate on the cutting of one type of leather, or on producing soles for one type of shoes. Into the plant facilities of the new tannery at Bolivar, Tennessee, have been incorporated, we believe, all of the economies and modern efficiencies adopted by the tanning industry up to this time.

A great many new additions to older plants, principally warehouses, also were made during 1947, providing additional productive area in some loca-

tions. And improvement and modernization have been and are being accomplished generally at all of the Company's properties.

When the new plants have been brought up to full production, the capacity of our 58 shoe factories will be in excess of 70,000,000 pairs annually.

The annual capacity of the 9 tanneries will be in excess of 3,500,000 hides and skins. In addition, they will process large quantities of splits, shoulders and bellies. Production of leather outsoles, middlesoles, insoles, counters, top pieces and shanks combined, will be about 113,500,000 pairs. Production of rubber soles will be 12,000,000 pairs and rubber heels 30,000,000 pairs. Production of cotton textiles will be 10,000,000 yards. These figures do not include our capacities for production of many findings and other materials and supplies which are used in shoe manufacture, such as

Bows	Shipping Containers
Box Toes	Shoe Boxes
Burnishing Wax	Shoe Finishes
Cements	Shoe Forms
Composition Top Pieces	Stays
Fibre and Strawboard Patterns	Steel Shoe Shanks
Leather Heel Bases	Stick Polish
Leather Welting	Stripping
Repair Crayons	Wood Sole Patterns

Housing—Because the superintendents, foremen and supervisory personnel who were transferred to the new locations found it exceedingly difficult, in fact impossible in many cases, to locate suitable homes, the Company decided to purchase or construct houses in such locations.

At this time, 81 houses have been acquired at a cost of approximately $600,000. The majority of them are new dwellings. These homes are rented to Company families under a long-term plan which contemplates purchase by the occupant wherever this is attractive to him.

Homes are badly needed now. No doubt conditions will change; houses again will be available. When that time comes, the Company will be in a position to retire from home ownership.

INFLATION

The early months of 1947 were marked by extreme caution on the part of large merchandising organizations. This resulted from the prevalent opinion held commonly by many business men and bankers that a set-back in the price level, as well as in the volume of business, in the country as a whole was to be expected by the middle of the year.

Deflation, at least in mild form, was freely predicted.

In contrast, the fall months of the year were marked by rising prices which persisted until many commodity prices made new highs and the prospect of more severe inflation caused considerable alarm. So general was the concern over high prices, that this was one of the purposes of the special session of the United States Congress called by the President for November 17.

No one knows how long this rising trend will continue, how swiftly or how far it may go. We do know that sharp rises in prices within a short period of time almost always cause maladjustments in the economic structure. The effect of this is particularly serious in the deterioration of the position of many large segments of consumers, particularly white collar workers, teachers and others similarly situated. They can no longer command a proper share of things needed for satisfactory living. The result of such maladjustments is that, sooner or later, "bust" follows "boom".

The "bust" usually spells disaster for businesses which are caught unprepared.

Company policies have been set to give the utmost protection to the Company—and thus to our employees, our stockholders, customers and suppliers whose interests are so closely intertwined. This policy might be described as "keeping inflation off the books." What has not been inflated cannot be deflated. Significant points in regard to our major assets follow:

Inventories:—First of all, about 75% of our inventories, based on today's market prices, are maintained on the "last-in, first-out" basis, which was established in 1941 and 1942 at a level of ½ to ⅓ of today's market level. This part of our inventories is that which is tied to hides. Hide prices have been recognized for many years as extremely sensitive to changing conditions. Being a by-product, an increase in demand for hides does not increase the supply—similarly, a lack of demand does not decrease the supply. Prices, therefore, can go to extremes whenever demand is either slightly plus or minus. Instead of fluctu-

ating with the market, our inventories of hides and related items are carried constantly at "Lifo" values.

Thus, our inventories do not represent the inflated values which can melt very rapidly in a time of sharply declining prices.

Cash: — Obviously, cash takes first place among desirable holdings when prices are falling—there is nothing to lose in this form of asset.

Accounts Receivable:—Accounts Receivable likewise represent dollars, not bricks or cotton. No change in market value can affect the "par value" of this asset. The hazard in Receivables, in event of business reversal, is in the change in customers' ability to pay the dollars they owe. Our credit risks are carefully supervised at all times, and, at this time, even more care is being exercised to assure that our Receivables will pay out even under adverse conditions.

Physical Properties:—Property acquired or constructed at inflated levels of prices can be a source of trouble in the event of a prolonged period of depression. In successful business, stockholders' money put into plants to be used thirty years or more must be recovered through the process of applying a small bit of the cost of the plant to each unit of sales during the life of the plant. High cost construction, carried over from a "boom" period, handicaps competitive business in a period of depression.

Our Company is fortunate in having maintained, in good condition, plants which were acquired or built over a great many years. Other than the new post-war construction, plants are from seven to about forty years old. Acquisitions were fairly well spread over the years, although large amounts were acquired from 1920 to 1930.

Through the operation of a conservative depreciation policy, much of the original investment in plant properties has been recovered, as is shown by the Reserve for Depreciation. This means that the physical properties of the Company acquired pre-war, and which represent 80% or more of the present total, are evaluated on a basis so conservative that they represent no threat of burden in the event of "bust".

Depreciation policies with respect to new plants are set to recover today's *excess* cost over a comparatively short period of time . . . so that in three, four or five years, not even these plants will become a burden in time of recession.

It is the Management's intention to continue the policy of "keeping inflation off the books" so far as possible.

FOREIGN TRADE

In 1947 our Company sent more than $3,000,000 of its shoes to customers outside the continental United States. This is about in line with what we have been doing for some time. For many years, we have distributed some shoes abroad, but it has always been a small part of the Company's business.

During the past year or more, the demand from foreign sources has been relatively large. This demand came at a time when we were unable to produce in quantities sufficient to satisfy the domestic demand for our product. So long as we continue to distribute our product under a "quota" plan at home, only a fair "quota" can be available for export.

While the possibility of foreign business taking on added importance is not being overlooked, any permanent development of this kind must necessarily depend on the solution of world-wide problems which now beset world leaders.

A greater exchange of products among the peoples of the world for their common welfare is an attractive goal; but, in the end, there must be an exchange of the *good* things. This calls for a reciprocal matching in other parts of the world of the effort, application, management and ingenuity found on the American scene – a far cry from the equalitarian cupidity which seemingly controls the reasoning of many who seek to share in the abundance of our industry.

When relief, so necessary now, is no longer needed, and when loans have helped to re-establish and strengthen industries in foreign countries, then a peaceful world in which goods are freely exchanged might offer opportunities for a substantial permanent increase in our foreign business. Only time will tell.

TAXES

Federal taxes on income for 1947 amount to approximately 38%.

It is gratifying to report that there are no tax controversies between the Government and our Company at this time.

All years through 1946 have been examined by the Revenue Agent, and it appears that all minor adjustments will be disposed of easily.

Older years have been closed by the running of the statute through 1943, except for any refunds that may be due the Company by reason of replacement of inventories under Section 22 (d) (6); and for any refund which may result from relief under Section 722 of the Internal Revenue Code.

OUR EMPLOYEES

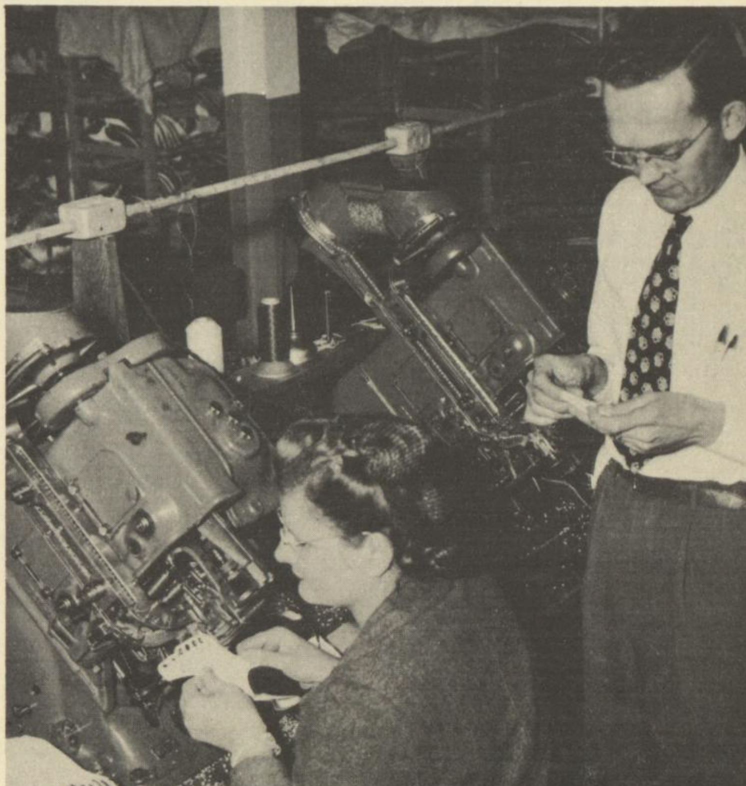
At the close of 1947, 36,000 men and women were employed by our Company, an increase of 3000 during the year.

During 1947, they worked at the highest wage rates and had the highest earnings of any period in Company history. Two increases aggregating approximately 10½% were made during the year, one effective March 3 and the other October 6.

This fall, contracts were made with principal employee groups under which wage rates were settled for the period of approximately a year.

A new feature in these contracts ties wage rates to cost of living. Under the arrangement, wage rates are automatically adjusted upward and downward as the Consumers Price Index, National Average of Large Cities, of the

Employees at work in Hopkinsville, Ky. . . . toe lasting (left) and eyeletting



Department of Labor, moves upward and downward. This is limited to a maximum increase of 12¢ per hour, and by a provision that rates will not go below those in effect on October 1.

Two additional paid holidays were granted, increasing the total to five.

Benefits inaugurated in the past were continued, including sickness, accident and death plans sponsored by the Company.

During 1947, 134 families received death benefits totaling $323,000, while approximately $115,000 was received by those forced to be away from their work because of sickness or accidents.

Employees and the Company both contribute to the cost of sickness, accident and death benefit plans. Part or all of the cost of administration is borne by the Company.

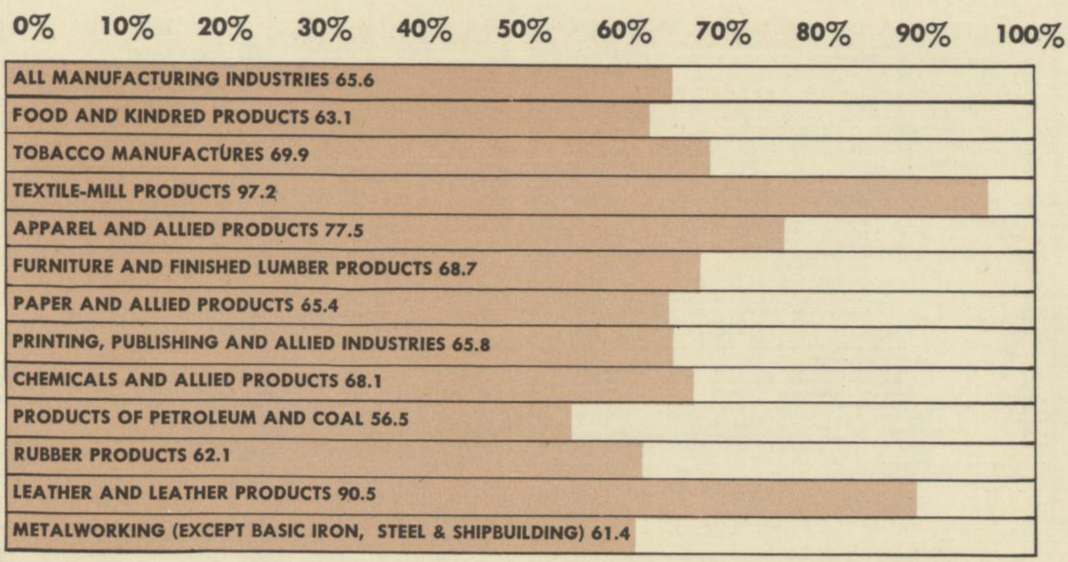
In addition, of course, employees have the benefit of unemployment and retirement pay provided by the Federal Social Security Act.

Under the Company's established vacation plan, employees with one year of service receive one week of vacation with pay, and those with five years of service, two weeks with pay.

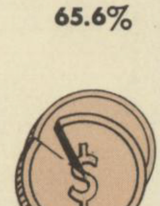
PERCENT OF CHANGE IN WAGE RATES IN MANUFACTURING, BY INDUSTRY GROUP—JANUARY 1941—APRIL 1947

PERCENT OF CHANGE

INDUSTRY GROUP



ALL MFG. INDUSTRIES 65.6%



LEATHER AND LEATHER PRODUCTS 90.5%

from "Postwar Manufacturing Wage Rate Increases in September 1947 Approximated 31 Percent" issued by U. S. Department of Labor, Bureau of Labor Statistics, November 5, 1947.

OUR CUSTOMERS

More than 25,000 retailers handle our shoes.

They are located in all of the 48 states, Alaska, Hawaii, Puerto Rico, the Canal Zone and a number of foreign countries.

Their places of business are found in the hearts of the great cities, in the shopping sections of suburbs, in the smaller cities, the county seat town, towns near the farms, the small villages and at the crossroads.

Some of them are long-established and independent financially.

Some of them are young men putting their ambition, courage, wits, talents, energies, into new enterprises with minimum money capital—but maximum capital in the form of character and integrity.

Our customers buy from the distributing branches of our Company more than 50 millions of pairs of shoes each year.

They pay their bills.

They come back for more shoes.

This goes on and on, year after year.

Strong ties are formed, based on mutual confidence.

Customer good will is a priceless asset.

OUR STOCKHOLDERS

Today there are approximately 11,000 owners of our Company. They live throughout the United States and in a number of foreign countries. Included among them are 4,000 women in whose names are registered about one-third of the total number of shares.

Among institutional holders are many churches, hospitals, charities, schools, universities and trust accounts.

No one individual or institution owns as much as 5% of the total stock issued.

The management feels a keen sense of responsibility to those who have invested in the Company and strives to merit their confidence.

OUR MANAGEMENT

Our management appreciates its responsibilities to

stockholders . . .	11,000
employees	36,000
customers	25,000

Responsibilities to these three large groups are not, however, separate and distinct, or in any sense conflicting.

Company policy must benefit all, or none. All benefit together from sound conduct of the business, or all suffer from unsound operation.

The Company is dependent on all three—

—stockholders: for continued investment of money to provide the plants, the machines, the tools with which our employees can work and produce.

—employees: for loyal and cooperative work in the effective use of the tools provided by the stockholders.

—customers: for taking the product of the employees' skills and efforts with the use of the stockholders' plants, machines and tools . . . and distributing that product throughout the land, sending back the money to pay for wages, materials and dividends.

Our management attempts to set the policies of our Company so that it will continue to grow soundly.

Such sound policies, firmly adhered to in the daily administration of the affairs of the business, benefit stockholders, employees and customers, jointly and mutually.

Our Company's management is keenly conscious of the importance of its function and the necessity of maintaining a high degree of management competence by the gradual shift of responsibility to carefully selected younger men.

SALE OF COMPANY STOCK TO EXECUTIVE EMPLOYEES

On January 30, the directors authorized the sale to valued executive employees of 64,600 shares of the Company's common stock at the market price of $39.50 per share; and for this purpose issued an additional 50,000 shares, as shown by the financial statement herewith. The action follows the Company's long-established policy of encouraging and assisting its executive employees in the acquisition of its common stock. Full details of the plan will be submitted to the stockholders for ratification at their annual meeting on January 26, 1948.

CONCLUSION

The year 1947 has been a successful one. The goals achieved, the results obtained, are the fruit of thinking, of planning, of preparation, dating back to the period when the end of the war was in sight. Our plans for 1948 are based upon producing more shoes than in 1947. High prices of raw materials with resulting high shoe prices create many problems for the industry in 1948. We shall continue to attack them with aggressiveness and with continued confidence in our competitive position and in our organization.

The foundations of our Company have been strengthened and a careful appraisal of our organization indicates that the Company at this time occupies the strongest position that it has ever attained. This position has been reached through the wholesome cooperation of officers, directors and key men who have made substantial contributions to the Company's sound growth.

FOR THE BOARD OF DIRECTORS

Frank C. Rand — Byron A. Gray

Chairman of The Board — President

January 9, 1948

National Advertising

Through our greatly expanded program of advertising our nationally-known brands, the historical quality standards of our shoes have become more widely known and recognized.

Strenuous and effective efforts to maintain these quality standards during the war years and in the period of reconversion have borne fruit and resulted in the continuous strengthening of our competitive position.

Our determination to stick to our policy of making quality our primary concern and unit production secondary, continues to be justified.

Vitality Shoes
Queen Quality Shoes
Dorothy Dodd Shoes
Winthrop Shoes
Poll Parrot Shoes for Boys and Girls
Rand
Friedman Shelby Shoes Comfort-Value
Star Brand Shoes
Conformal Shoes for Men and Women
Hy-Test International Shoe Co. Safety Shoes
Velvet step Shoes
The Trim Tred Shoe.
Dun Deers
Grace Walker Heel-Cup by Friedman-Shelby
Sundial Shoes for All the Family
Red Goose Shoes
Weather Bird Shoes
City Club Distinctive Shoes for Men
John C. Roberts Shoe
Diamond Brand Shoes

The Nation's leading brand names . . . advertised in the Nation's leading Magazines

Financial Statements

International

Balance Sheet as of

ASSETS

CURRENT ASSETS:		
Cash in banks and on hand		$ 10,434,001
United States Government securities at cost, plus accrued interest		2,393,487
Accounts receivable:		
Customers, less reserve for cash discounts and doubtful accounts	$ 26,981,356	
Traveling advances to salesmen and sundry accounts	124,168	27,105,524
Inventories:		
At cost (determined on the "last-in, first-out" method):		
Finished shoes	11,036,297	
Shoes in process	3,399,246	
Hides and leather	13,045,417	
At lower of cost or market:		
Miscellaneous materials and supplies on hand and in process	15,856,352	43,337,312
Prepaid expenses—Insurance premiums, taxes, and sundry		525,594
		83,795,918
OTHER ASSETS:		
Amounts of Federal Income Taxes recoverable under the replacement provisions (section 22 (d) (6) of the Internal Revenue Code) relating to inventories maintained on "last-in, first-out" method	2,674,617	
Employees Notes Receivable under installment purchase plan—secured by 64,600 shares of Company's common stock (Sale to employees subject to ratification at stockholders' meeting, January 26, 1948)	2,482,764	
Advances to ($119,600) and Investment in Subsidiary and Associated Companies (less reserve)	305,405	
Investment in Stocks of other Companies, Etc. (less reserve)	570,405	6,033,191
PHYSICAL PROPERTIES - tanneries, shoe factories, supply departments, and sales branches (based on appraisal as of April 30, 1925, plus subsequent additions at cost):		
Land and water rights	1,874,317	
Buildings and structures	23,984,530	
Machinery and equipment	22,584,546	
Lasts, patterns, and dies	1	
	48,443,394	
Less—Reserve for depreciation	29,542,235	18,901,159
		$108,730,268

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable for merchandise, expenses, and payrolls		$ 8,390,996	
Due to subsidiary companies		86,364	
Employees income tax withheld from payroll		742,831	
Stockholders and employees balances		262,622	
Accrued employees vacations		1,198,318	
Employees partial payments for government bonds		127,734	
Reserve for Federal taxes on income		8,950,000	
		19,758,865	
RESERVES:			
For excess cost of replacing inventories maintained on the "last-in, first-out" basis, less income taxes applicable thereto	$ 150,000		
For insurance	608,669	758,669	
CAPITAL STOCK AND SURPLUS:			
Common stock without nominal or par value. Authorized 4,000,000 shares; issued and outstanding— 3,400,000 shares	51,000,000		
Capital surplus	1,354,289		
Earned surplus	35,858,445	88,212,734	
		$108,730,268	

INTERNATIONAL SHOE COMPANY

STATEMENT OF PROFIT AND LOSS

For the year ended November 30, 1947

Net sales of shoes and other manufactured merchandise; and inter-plant transfers (at approximate market) from the Company's own supply plants (tanneries, cotton mill, rubber plant, cut sole plants, etc.) to shoe factories	$304,357,684
Less—Inter-plant transfers	91,439,492
Net sales to customers	212,918,192
Other income	187,289
Reduction in reserve provided for excess cost of replacing inventories maintained on the "last-in, first-out" basis	60,000
	$213,165,481
Cost of shoes and merchandise sold, after charging operating expenses, maintenance of physical properties, selling, administrative, and warehouse expenses, and credit losses, less discount on purchases	189,308,357
Depreciation of physical properties	1,263,344
Provision for Federal taxes on income less estimated refunds of $206,416 resulting from excess cost of replacing during year inventories maintained on "last-in, first-out" basis	8,591,763
	199,163,464
NET PROFIT FOR YEAR	$ 14,002,017

STATEMENT OF CAPITAL STOCK AND SURPLUS

For the year ended November 30, 1947

Common Stock and Surplus at November 30, 1946:		
Common stock (outstanding 3,350,000 shares)		$ 50,250,000
Earned surplus		29,479,698
		79,729,698
Sale of 50,000 shares of common stock (stated value $750,000)		1,975,000
Gain from sale of Company's own common stock		129,289
Net profit for the year		14,002,017
		95,836,004
Dividends:		
Common stock—$2.25 per share	$ 7,627,500	
Less—Dividends on Company's own common stock	4,230	7,623,270
Common Stock and Surplus at November 30, 1947		88,212,734
Divided as follows:		
Common stock (outstanding 3,400,000 shares)	51,000,000	
Capital surplus	1,354,289	
Earned surplus	35,858,445	$ 88,212,734

Peat, Marwick, Mitchell & Co.

St. Louis, Missouri
December 31, 1947.

Accountants Report

To the Board of Directors,
International Shoe Company,
St. Louis, Missouri.

We have examined the Balance Sheet of the International Shoe Company, a Delaware Corporation, as of November 30, 1947 and the statements of Profit and Loss and Surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

In our opinion, the accompanying Balance Sheet and related statements of Profit and Loss and Surplus present fairly the position of the International Shoe Company at November 30, 1947 and the result of the operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

SALES BRANCHES

ST. LOUIS

Roberts, Johnson & Rand
Peters
Friedman-Shelby
Continental Shoemakers
Pennant Shoe Co.
Jefferson Shoe Co.
Vitality Shoe Co.
Queen Quality Shoe Co.
Dorothy Dodd Shoe Co.
Winthrop Shoe Co.
Conformal Footwear Co.

MANCHESTER, N. H.

Sundial Shoe Co.
Great Northern Shoe Co.
Metro-Craft Shoe Co.

LOCATION OF SHOE FACTORIES AND SUPPLY PLANTS

MISSOURI

Belle
Bland
Cape Girardeau
De Soto
Dexter
Eldorado Springs
Fulton
Hamilton
Hannibal
Hermann
Higginsville
Houston
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
Richland
St. Charles
St. Clair
Ste. Genevieve
St. Louis
Sikeston
Sullivan
Sweet Springs
Vandalia
Washington
West Plains
Windsor

ILLINOIS

Anna
Belleville
Chester
Evansville
Flora
Jerseyville
Mt. Vernon
Olney
Quincy
Springfield
Steeleville

ARKANSAS

Bald Knob
Batesville
Conway
Malvern
Russellville
Searcy

NEW HAMPSHIRE

Claremont
Manchester
Nashua
Newport

KENTUCKY

Hopkinsville
Paducah

LOCATION OF TANNERIES

South Wood River, Illinois
St. Louis, Missouri
Manchester, New Hampshire
Merrimack, New Hampshire
Morganton, North Carolina
Philadelphia, Pennsylvania
Bolivar, Tennessee
Marlinton, West Virginia